

Town of Reading



Special Town Meeting
September 12, 2016

RPS GUEST

WiFi password: none



2016 Special Town Meeting

Article 1 – Reports

- ▶ None are expected

2016 Special Town Meeting

Article 2 – Instructions

- ▶ None are known in advance

2016 Special Town Meeting

Article 3 – Capital Plan FY17–FY27

- ▶ Extensive changes (see pages 3–4); does not authorize funding
- ▶ **FY17 +\$26,000** for Fire department capital already funded by FINCOM
- ▶ **FY18 +\$610,600** moved from various years, or added as new; note that debt service in FY18 is now projected \$637,500 lower because of changes to the Birch Meadow phase I Field lighting and changing \$2.7 million town & school roof projects from debt to capital
- ▶ **FY17 (November)** expect \$490,000 requests; the \$210,000 DPW loader is urgent – a replacement is being leased for \$15,000/month
- ▶ **FY17 (April)** expect \$120,000

Capital Plan is in excellent shape

2016 Special Town Meeting

Article 4 – Senior Tax Relief #1

- ▶ Increases an existing tax exemption from \$750 to \$1,000 under MGL Ch 59 Sec 5 Clause 41C
- ▶ State eligibility guidelines are strict:
 - 65+ single \$20,000 income; \$40,000 assets (excludes home)
 - 65+ married \$30,000 income; \$55,000 assets (excludes home)
- ▶ About 20 seniors qualify, and this is tax revenue lost to the town
 - $20 \times \$250$ additional = \$5,000 increased tax loss
- ▶ May 2010 Town Meeting had increased this from \$500 based on area community survey
- ▶ Currently \$1,000 Melrose, Stoneham, Wakefield, Woburn; \$750 Lynnfield; \$500 Wilmington

2016 Special Town Meeting

Article 5 – Senior Tax Relief #2

- ▶ Indexes the previous exemption to a cost-of-living benchmark
- ▶ Very low cost to the town, may save future Town Meeting action

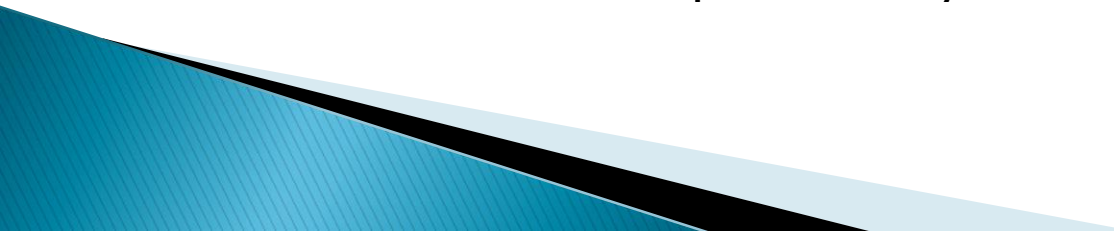
2016 Special Town Meeting

Article 6 – Senior Tax Relief #3

- ▶ Currently eligible seniors may defer property tax payment
 - Age 65+; \$40,000 maximum income; no asset limit
- ▶ When the taxes are ultimately paid, the current deferral interest is 8%. If the senior passes before paying these taxes, the estate is responsible for this tax payment as a first lien, and the interest rate increases to 16% per state law on the date of death
- ▶ This article would reduce the 8% to 4% with the other terms above remaining in place
- ▶ Under the interest rate situation for the past several years, 4% is well above what the town earns on cash balances
- ▶ No tax payments are currently deferred under this program; a recent high enrollment was 3 seniors

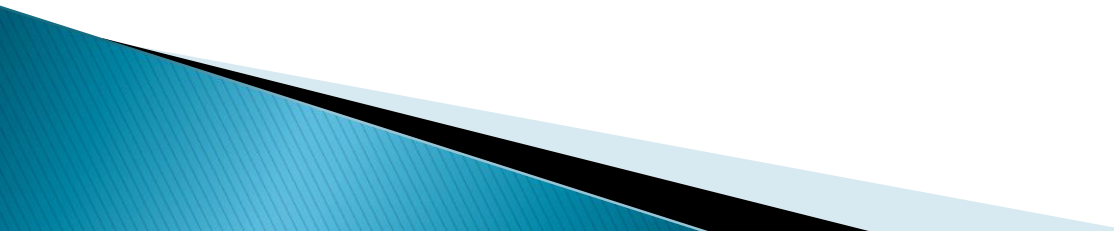
2016 Special Town Meeting

Article 7 – Senior Tax Relief #4

- ▶ Previous tax relief measures have a meaningful but limited applicability in Reading
 - ▶ There are both medical and financial challenges for our seniors to remain in their homes, or ‘age in place’
 - ▶ Seniors represent the fastest growing segment of our community – extensive town planning efforts have been underway in areas ranging from construction projects to changes in bylaws (such as ‘inlaw’ apartments by right)
 - ▶ This seems like the morally right thing to do, but additionally seniors are less expensive than students in terms of cost of local services
 - ▶ State tax law does not provide any tools to offer more protection
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2016 Special Town Meeting

Article 7 – Senior Tax Relief #4

- ▶ This article is a Home Rule Petition requesting additional tax relief – and if approved would be the third one in the state
 - ▶ The town cannot afford to simply forgo the tax income, estimated at \$500,000 to \$700,000 annually, that would be granted under this senior tax relief – other taxpayers will pick up that cost
 - ▶ After examining many options, the Town preferred a choice that was easy to understand and administer, ie a ‘no-cost’ operational budget impact to the town. The previous senior tax relief articles require extensive staff work, but for a very small pool of eligible seniors
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2016 Special Town Meeting

Article 7 – Senior Tax Relief #4

▶ **Proposed eligibility criteria:**

- Applicant has filed & received a prior year Schedule CB state income tax relief benefit;
- Applicant has owned property in Reading for at least the prior ten consecutive years;
- Applicant applies annually to the Board of Assessors (in August)

▶ **Advantage: very easy to understand and administer**

▶ **Proposed tax benefits:**

- Between 50% and 200% of the CB income tax relief received above, as determined annually by the Board of Selectmen. That benefit is graduated by income, with a current maximum of just over \$1,000 (so the local benefit could be \$500 to \$2,000)

▶ **Advantage: very flexible since no one knows what the pool of eligible applicants will look like as the program starts**

2016 Special Town Meeting


Article 7 – Senior Tax Relief #4

► Schedule CB eligibility (2014):

- Age 65 or older; must file as single/married jointly/head of household;
- If homeowner, assessed value \$691,000 or less;
- Income qualifications (maximum)
 - Single \$56,000; Head of Household \$70,000; Married jointly \$84,000
- Income defined as
 - MA Adjusted Gross Income
 - PLUS Social Security
 - PLUS untaxed (by state) retirement income
 - PLUS some MA exclusions (Form 1 lines 2b–2d) added back in to income
- Tax credit (max \$1,050) only if Real estate taxes paid plus 50% of water/sewer charges paid are greater than 10% of the income calculated above

2016 Special Town Meeting

Article 7 – Senior Tax Relief #4

- ▶ **What we know (2014 CB data):**
 - 645 residents qualified; average income tax benefit was \$856
 - ▶ **What we don't know :**
 - How many of the 645 were renters and therefore ineligible
 - How many homeowners have not been so for 10+ years
 - Did anyone eligible for CB not file, but they might
 - What is the data distribution of that income tax relief
 - ▶ **What we must therefore do as we gather local data:**
 - Build in flexibility: a wide property tax relief range of 50% to 200%
 - ▶ **Targeted tax benefit/Estimated cost:**
 - Maximum \$1,300 & Average \$1,000; Total at 125% \$700,000
- 

2016 Special Town Meeting

Article 7 – Senior Tax Relief #4

The Selectmen indicated a desire to share the cost of this tax relief among all taxpayers. As we do not have good data on how large the qualified applicant pool will be, that 50% to 200% range will allow the Board to target \$700,000 (125%) of tax relief in total to be reallocated (with a policy maximum of \$1 million).

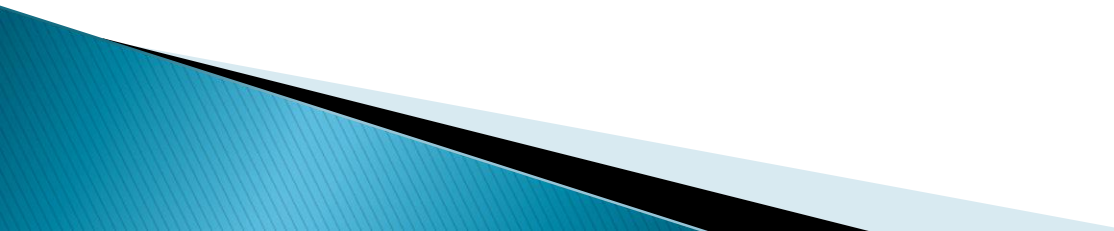
Residential			
\$	300,000	10%	\$ 48
\$	400,000	31%	\$ 64
\$	500,000	31%	\$ 81
\$	600,000	14%	\$ 97
\$	700,000	14%	\$ 113

Commercial		
\$100k - \$500k	41%	\$ 63
\$500k - \$1mil	30%	\$ 146
\$1mil - \$2mil	17%	\$ 279
\$2mil - \$3mil	4%	\$ 464
\$3mil - \$10mil	6%	\$ 895
\$10mil +	3%	\$ 3,882

2016 Special Town Meeting

Article 8 – Financial Condition of Town

Review of Public Discussions since Annual Town Meeting

- ▶ 3 Community Listening Sessions
 - ▶ June 1 @ Coolidge MS; June 7 @ Sr. Ctr.; June 16 @ Parker MS
 - ▶ 18 Public Meetings to discuss what we heard from the community
 - ▶ Board of Selectmen (7); School Committee (7) and FINCOM (3) Meetings
 - ▶ Community Financial Forum September 1 @ RMHS PAC
 - ▶ Next Steps:
 - ▶ Monday September 12th Special Town Meeting
 - ▶ Tuesday October 18th Special Election
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Town of Reading

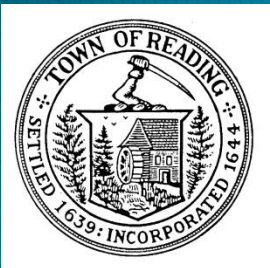
Revenues compared to before last Override

	FY17	FY03	Change (annual)
Property Taxes ¹	\$61.1 mil	\$32.5 mil	+4.6%
State Aid ²	\$13.9 mil	\$12.0 mil.	+1.1%
Local & Other Sources ³	\$10.4 mil.	\$ 7.1 mil.	+2.8%

¹ Includes \$4.5 mil. Override plus annual +2.5% plus new growth

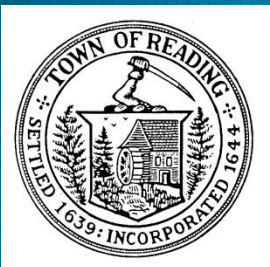
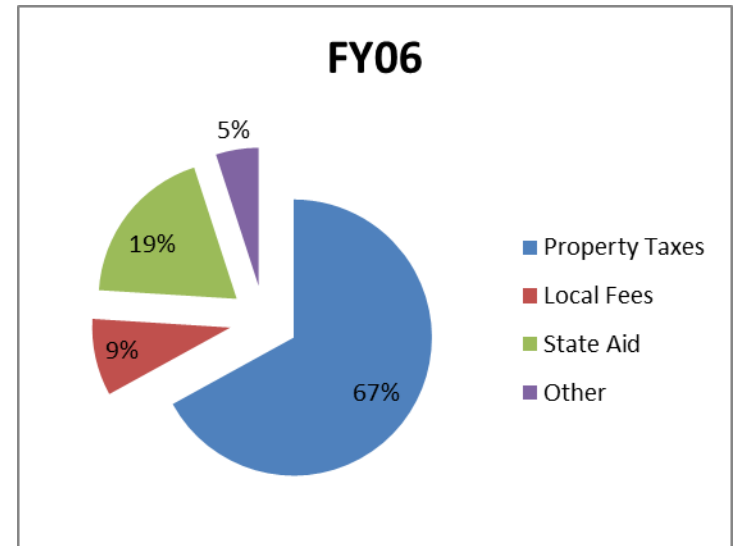
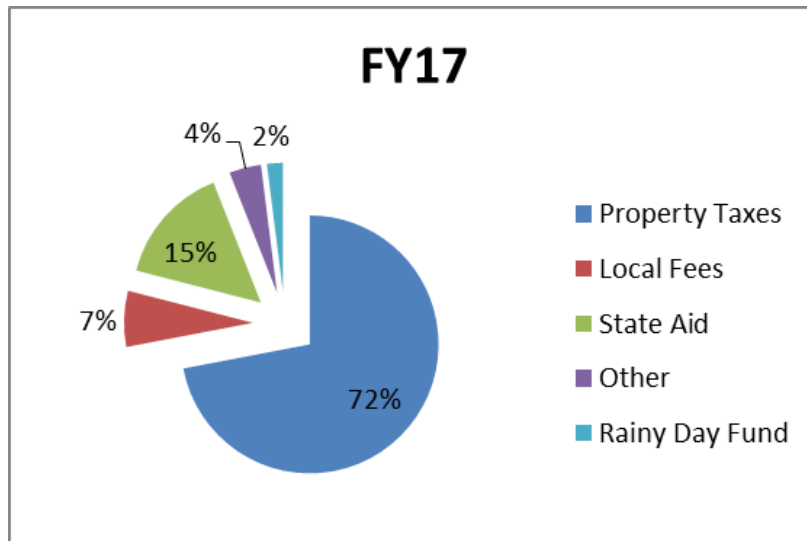
² Lost \$3 mil. annually – if State Aid had risen at only 2.5%

³ Lost \$1 mil. annually – decline in Fed. Payments; lower int. earnings



Town of Reading

Revenues – compared to after last Override



Average annual growth +3.1%, but slower recently
State Aid continues to lag: we need to be self-sufficient

Town of Reading

Budget model in Reading

\$90.2 million Revenues (current year FY17)

First take care of these:

\$33.2 million Accommodated Costs {Benefits, Capital, Debt, Energy, Financial, Vocational Education; Out of district SPED; Miscellaneous}

Then this is leftover (current split Schools 64% Town 36%)

\$57.0 million School/Town Operating budgets



Town of Reading

Recent History

	Revenues	Accommodated Costs	Operating Budgets	Signs of Caution
FY18*	+3.0%	+5.9%	-1.7%	
FY12-17	+2.5%	+1.8%	+2.7%	
FY17	+2.9%	+1.7%	+3.40%	Cut in capital spending; layoffs; more Free Cash
FY16	+2.9%	+3.4%	+2.75%	Cut in capital spending; layoffs
FY15	+2.7%	+0.8%	+3.50%	Free Cash use increased to \$2mil
FY14	+2.8%	+1.5%	+3.75%	
FY13	+2.5%	+1.7%	+3.60%	Free Cash use increased to \$1.5 mil
FY12	+1.2%	+1.6%	-0.50%	Layoffs & wage freezes



**estimated; -1.7% assumes no Free Cash used;
-0.6% assumes \$1mil Free Cash used; Operating
budgets require +3.5% minimum annual growth
to provide level service*

Town of Reading

Structural Deficit: \$3 million today

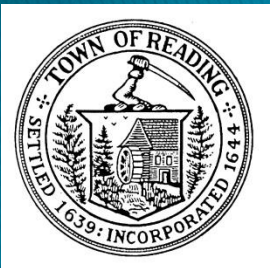
FY17 total budget: \$2.15 million out of balance

FY18 estimated total budget: \$3 million out of balance

Current Structural deficit breakdown:

School budget \$1.92 million

Town budget \$1.08 million

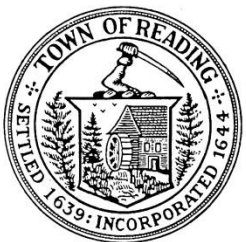
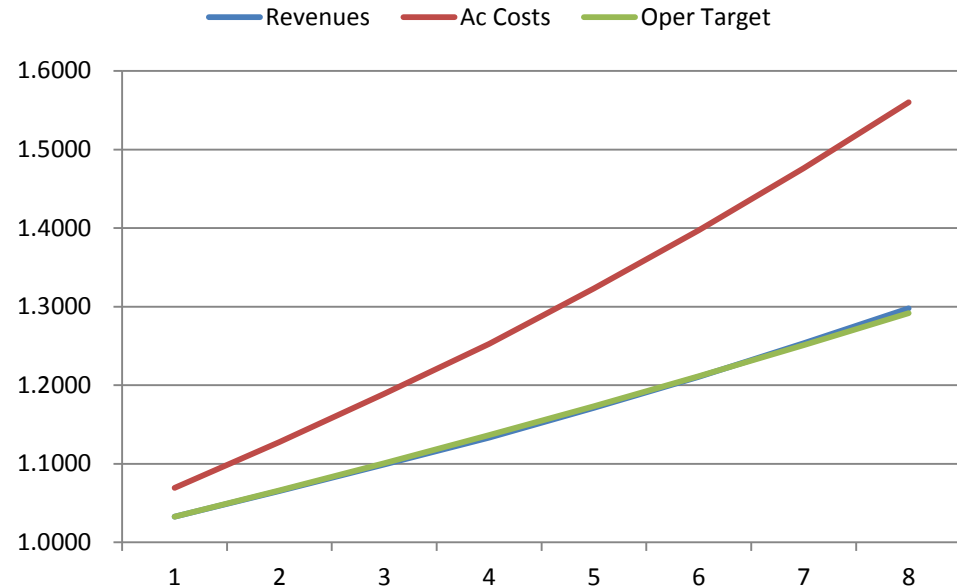


Town of Reading

Structural Deficit: future – forecast to be worse

In the future, our revenues are projected to roughly cover the +3.5% operating budget target – to the right these two lines are almost identical

However forecast Accommodated costs are clearly a challenge – they add **\$0.7 million** annually to the structural deficit

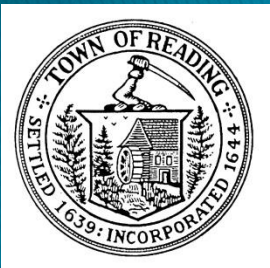


Override

An initiative petition was passed in 1980 and implemented in 1982 that limited the total property tax (the tax levy) increase in MA communities to +2.5% (plus any New Growth). Because of annual changes in assessed values, individual tax bills go up by various amounts, but are limited to +2.5% for the tax levy.

An Override seeks to permanently increase the tax levy by a specified dollar amount. After that, annual increases are again limited to +2.5%

Note that capital or debt exclusions, such as Reading has for both the High School and Library projects, may be added on top of this +2.5% limit, when approved by the voters. These exclusions are temporary – for a specified amount of time – and when the projects are paid for this part of the tax bill vanishes. More on this later.



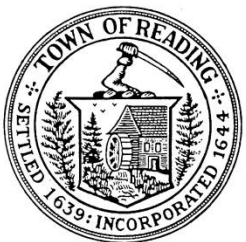
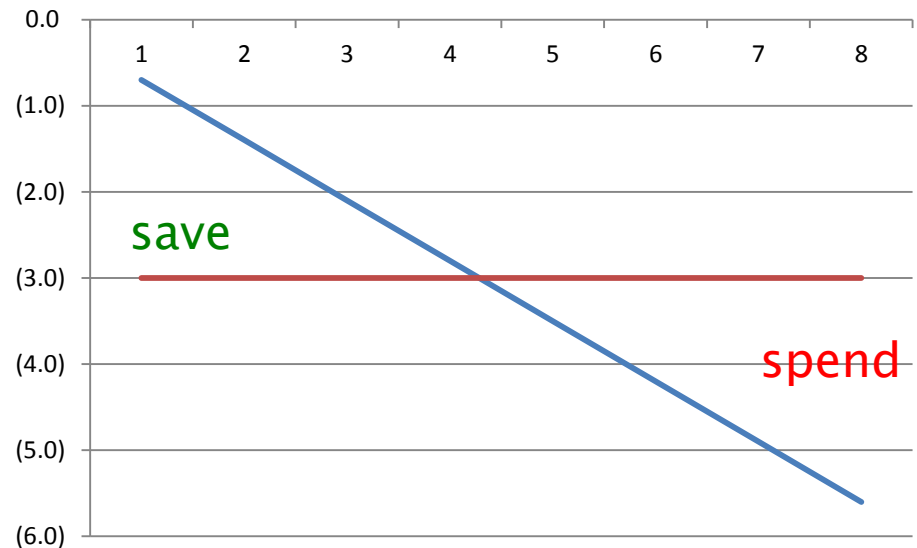
Town of Reading

Structural Deficit: Why \$6 million?

In 8 years this annual funding gap is therefore forecast as an additional \$5.6 mil. to be a total of \$8.6 million

An Override by state law must be a lump sum; we really need \$3 mil. plus \$0.7 mil more each year

Solution: **\$3 mil.** to fix the current deficit; then an **additional \$3 mil.** to fix this annual gap as shown on the right



Town of Reading

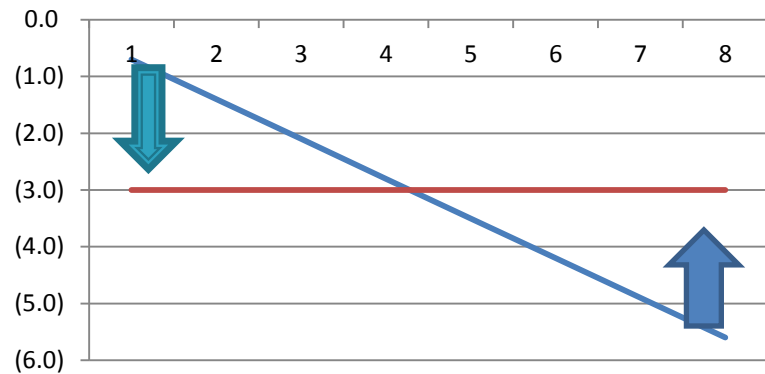
Structural Deficit: let's not make it worse

FY18

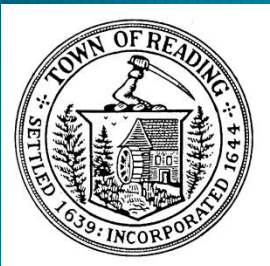
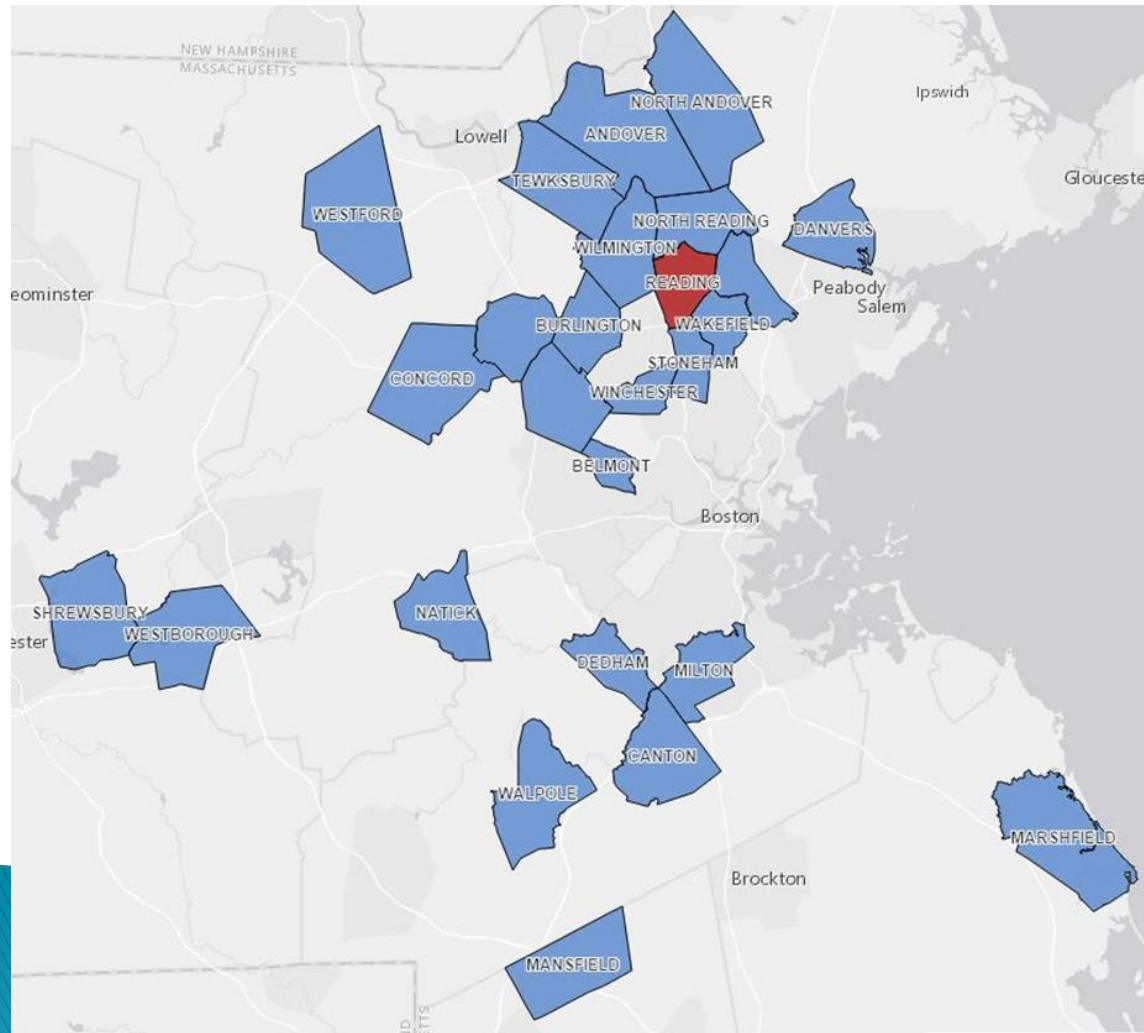
\$3.0 mil. current structural deficit
\$0.3 mil. pension funding
\$2.0 mil. additional capital*
\$0.7 mil. Savings*

Beyond FY18

Spend more on capital in early years, then spend less in later years. The capital plan is in solid shape and can withstand a lower future baseline of spending. This will reduce the amount of 'savings' needed to shift into future 'spending'



Peer Communities



Peer Revenues

	Reading	Peer Communities
Tax Levy	60.5%	66.6%
<i>Residential</i>	91.4%	76.9%
<i>Residential</i>	<i>\$53.8 mil.</i>	<i>\$54.8 mil.</i>
<i>CIP</i>	8.6%	23.1%
<i>CIP</i>	<i>\$5.0 mil.</i>	<i>\$17.3 mil.</i>
State Aid	13.7%	11.0%
Local Receipts	21.6%	17.5%
Other	4.2%	4.9%



Source: MA DOR

Peer Expenses

% of Budget Spending	Reading	Peer Communities	Difference
Public Safety	9.2%	8.7%	+0.5%
Culture & Recreation	2.1%	1.7%	+0.4%
Education	39.3%	39.1%	+0.2%
DPW	5.1%	4.9%	+0.2%
Human Service	0.6%	0.7%	-0.1%
Fixed Costs & Debt	17.7%	17.8%	-0.1%
Other (Ent Funds)	22.4%	22.8%	-0.4%
Gen'l Gov't	3.6%	4.3%	-0.7%



*Source: MA DOR – budgets include Enterprise Funds
Reading \$97 mil.; Peers average is \$108 mil.*

Peer Education Expenses

Peer average is 15.8% enrollments/population; Reading is higher at 17.4%

	Pop.	Enroll	% Enroll	% Budget		Pop.	Enroll	% Enroll	% Budget
Westford	23,265	5,139	22.1%	45.0%	North Andover	29,217	4,795	16.4%	41.0%
Lexington	32,650	6,785	20.8%	36.0%	Walpole	24,818	3,946	15.9%	41.9%
Winchester	22,079	4,505	20.4%	36.8%	Natick	35,214	5,368	15.2%	34.2%
Westborough	18,630	3,624	19.5%	44.4%	Canton	22,221	3,326	15.0%	35.8%
Bedford	13,975	2,522	18.0%	39.7%	Wilmington	23,147	3,448	14.9%	44.0%
Lynnfield	12,395	2,205	17.8%	43.9%	Milton	27,270	4,011	14.7%	38.3%
Andover	34,477	6,076	17.6%	42.3%	Burlington	25,463	3,499	13.7%	39.7%
Mansfield	23,566	4,144	17.6%	44.9%	Wakefield	26,080	3,439	13.2%	31.7%
Reading	25,327	4,407	17.4%	39.3%	Danvers	27,483	3,588	13.1%	31.9%
Belmont	25,332	4,283	16.9%	34.2%	Tewksbury	30,107	3,658	12.1%	36.3%
Marshfield	25,509	4,267	16.7%	44.4%	Dedham	25,299	2,776	11.0%	31.5%
North Reading	15,377	2,556	16.6%	38.8%	Concord	19,285	2,114	11.0%	50.2%
Shrewsbury	36,309	6,016	16.6%	43.4%	Stoneham	21,734	2,317	10.7%	35.2%



Source: MA DESE 2014-15

Town of Reading

Residential Taxpayer View – current

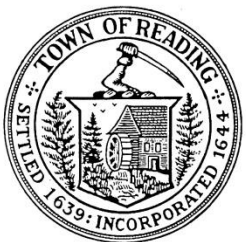
Average \$500,000 single family home (SFH) tax bill:

Tax Bill	Tax Levy	RMHS	Library
\$7,250	\$6,905	\$161	\$184

Taxpayers will have completed repaying excluded debt for the High School project in FY24 and for the Library project in FY25, leading to tax increases below the annual +2.5% levy ceiling as shown below:

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
SFH	\$7,418	\$7,590	\$7,767	\$7,947	\$8,132	\$8,321	\$8,516	\$8,563	\$8,625	\$8,840
Rate	+2.31%	+2.33%	+2.33%	+2.32%	+2.32%	+2.32%	+2.35%	+0.55%	+0.72%	+2.50%

This translates into an average 2.0% annual tax bill increase over the ten year period



Overrides – what do our Peers do?

Sorted by reliance on Residential Tax Base:

	TOT	Most Recent	t YES	Res%	SPLIT
Milton	8	2009 YES	6/09	96.1	1.61
Winchester	10	2015 NO	3/07	95.0	0.94
Belmont	6	2015 YES	4/15	94.4	1.0
Marshfield	15	2008 YES/NO	4/07	92.1	1.0
READING	5	2003 YES	4/03	91.4	1.0
Concord	22	2006 YES	4/06	91.0	1.0
Stoneham	6	2011 NO		88.9	1.70
Lexington	19	2007 YES	6/07	87.6	1.96
North Reading	14	2009 NO	2/05	87.3	1.0
Lynnfield	4	2011 YES	6/11	87.2	1.19
North Andover	8	2007 YES	6/07	87.2	1.41
Shrewsbury	6	2014 YES	6/14	87.0	1.0
Walpole	4	2012 YES	6/12	86.4	1.33

	TOT	Most Recent	t YES	Res%	SPLIT
Wakefield	1	1990 YES	3/90	84.9	2.02
Westford	21	2006 NO	3/99	84.7	1.01
Tewksbury	2	2007 NO		81.8	1.69
Dedham	0			80.5	2.14
Andover	2	2003 NO		80.2	1.65
Bedford	0			78.6	2.20
Canton	2	2008 YES	5/08	77.4	2.06
Natick	4	2008 YES	3/08	77.4	1.0
Mansfield	2	2000 YES	4/00	76.5	1.34
Wilmington	3	1995 NO		76.4	2.28
Danvers	0			74.0	1.44
Westborough	0			64.5	1.0
Burlington	0			62.7	2.59



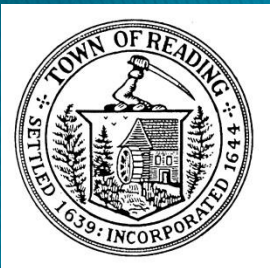
Town of Reading

Structural Deficit – History

Previous Override: \$4.5 million

- Equivalent as % of taxes to \$8.5 million Override in FY18
- No financial modelling looking towards the future
- “Hope this lasts for 8–10 years”

Why did the previous Override last for so long?



Town of Reading

Structural Deficit – History

Efficiencies – the list is quite long, but here are some highlights

Spend money to save money: Performance contracting; some out of district SPED brought in–district; opt–out Health Insurance payments

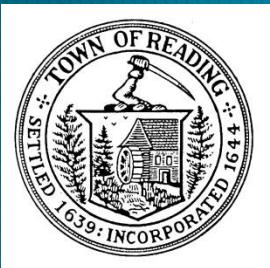
Spend money to generate revenues: Fire Dept. Advanced Life Support

Operational efficiencies: capital spending; rubbish/recycle; technology

Restructuring large departments and single positions

Financial planning (next slide) emphasized

Fees & Revolving Funds increased



There will always be room for improvements,
but we are running out of ideas

Town of Reading

Financial Planning: Example

\$millions	FY06	FY17	change
Debt	\$4.15	\$1.84	-\$2.31
Prin	\$2.58	\$1.54	-\$1.04
Int	\$1.57	\$0.30	-\$1.27

In FY17, the Town will spend 2.1% of the general fund budget on debt service inside the tax levy, and 80% of those funds are for 'productive' principal payments, repaid for needed capital expenditures that were financed by debt.

In FY06, the Town spent 6.8% on debt service, and almost 40% of that was on 'unproductive' interest payments. If FY06 practices were continued, FY17 School and Town budgets would need to be cut by **over \$4 million**



Town of Reading

Override = Structural Deficit + How Much More?

During the summer 2016 both the School Committee and Selectmen and their respective staffs debated what services they should seek to restore or add as new to their budgets in the event an Override was requested of the voters.

	\$6mil	\$7.0m	\$7.5m	\$8.0m	\$8.5m	\$9.0m
Structural	\$6.0m	\$6.0m	\$6.0m	\$6.0m	\$6.0m	\$6.0m
Schools		\$640k	\$960k	\$1.28m	\$1.60m	\$1.92m
Town		\$360k	\$540k	\$720k	\$900k	\$1.08m

The Schools requested \$1.925 million and the Town requested up to \$1.08 million – or a combined \$3 million of additional funding.



Town of Reading

Taxpayer Impact – Override

For the same average SFH tax bill, a \$6.0 million Override to remedy the current structural deficit for 8 years will cost \$664 above the +2.5% limit as shown below. Over the same ten-year period, this translates into a 2.9% annual increase.

Costs for additional Operating budget funding are also shown below, with a \$9.0 million Override translating to a 3.4% annual increase:

Residential	\$6 mil	\$7 mil	\$7.5 mil	\$8 mil	\$8.5 mil	\$9 mil
\$ 300,000	\$ 398	\$ 464	\$ 497	\$ 530	\$ 563	\$ 596
\$ 400,000	\$ 531	\$ 619	\$ 663	\$ 707	\$ 751	\$ 795
\$ 500,000	\$ 664	\$ 774	\$ 829	\$ 884	\$ 939	\$ 994
\$ 600,000	\$ 797	\$ 929	\$ 995	\$ 1,061	\$ 1,127	\$ 1,193
\$ 700,000	\$ 930	\$ 1,084	\$ 1,161	\$ 1,238	\$ 1,315	\$ 1,392



Town of Reading

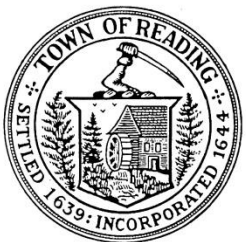
Residential Taxpayer View

After extended discussion, the Board of Selectmen selected a **\$7.5 million Override** to request from the voters. This figure would be able to restore or add half of what had been requested, plus fund the structural deficit. Here is the tax bill impact:

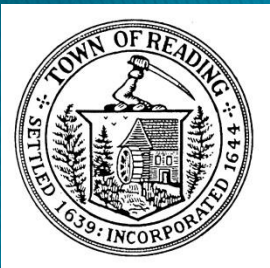
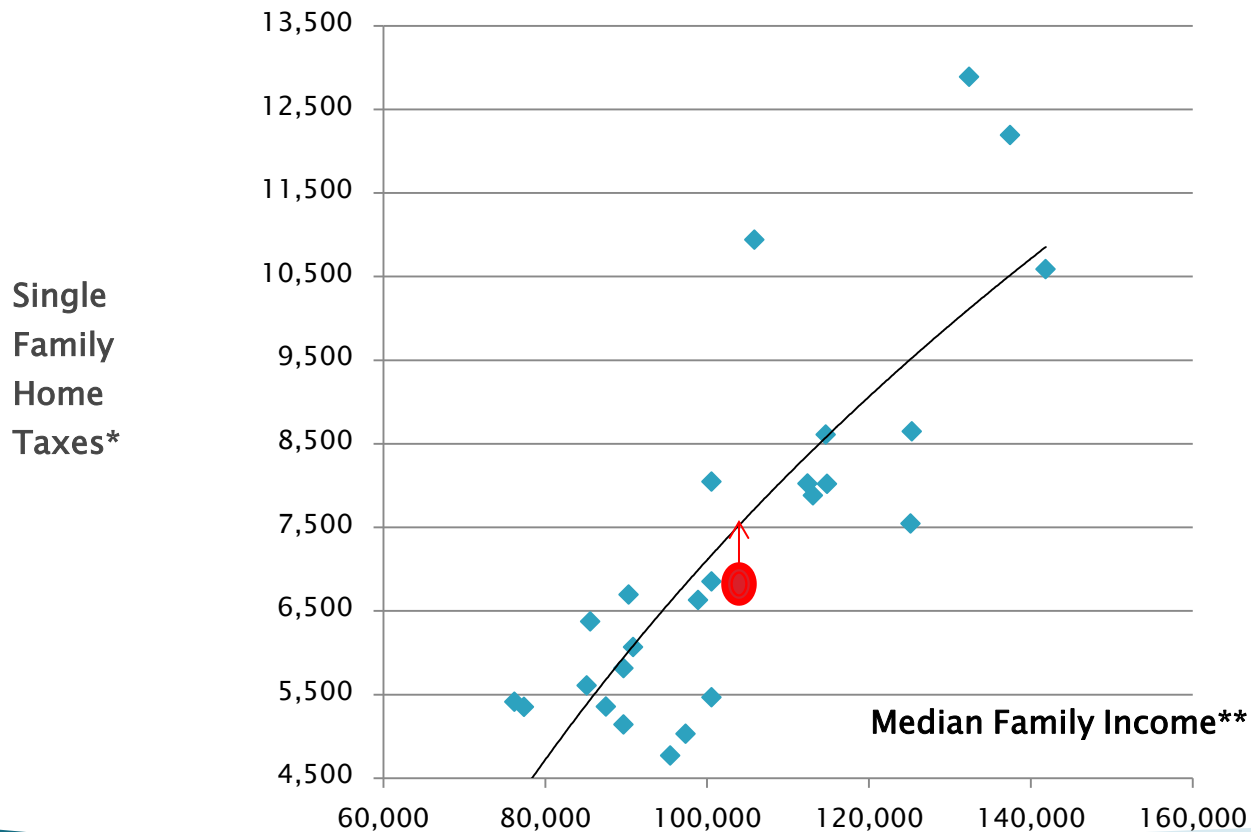
Average \$500,000 single family home (SFH) tax bill with a \$7.5 million Override

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
SFH	\$8,265	\$8,459	\$8,657	\$8,859	\$9,067	\$9,279	\$9,498	\$9,570	\$9,657	\$9,898
Rate	+13.90%	+2.35%	+2.35%	+2.32%	+2.32%	+2.32%	+2.35%	+0.76%	+0.91%	+2.50%

This translates into a **+3.1%** annual increase



Peer Residential Tax Burden



Reading is taxed \$600 to \$700 below Peers; a \$7.5 million Override brings Reading to \$100 above Peers – until such time as they pass future Overrides

Sources: * DOR 2015 **Boston Globe 2010-2014

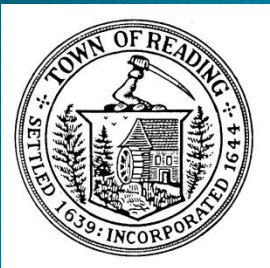
Town of Reading

Structural Deficit – Future

The financial model will allow future Town and School leaders to track annual financial reality versus what we have guessed might happen.

Don't forget that today we have two projects on the horizon as excluded debt – **Killam School** and the **DPW Garage/Cemetery building**. In a perfect world we'd wait until other excluded debt projects are paid off.

We DO NOT want to fall back into spending Operating budget funds on projects of this size, as we did for Barrows and Wood End. The rest of the Capital Plan was then largely ignored, and debt serviced ballooned inside the tax levy.

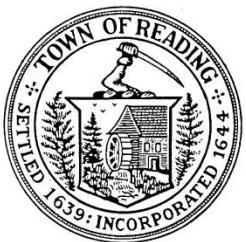


Town of Reading

Structural Deficit – Future

The town is actively engaged in efforts to promote more commercial development that could add as much as \$2 million of New Growth to our annual revenues. These efforts will require another five years, but if successful delay the need for any future Override.

Commercial	# prop	% prop	Avg Val	% C tax	Taxes	Avg Tax
\$100k - \$500k	84	41%	\$ 311,010	8.6%	\$ 379,092	\$ 4,513
\$500k - \$1mil	61	30%	\$ 719,956	14.4%	\$ 637,267	\$ 10,447
\$1mil - \$2mil	35	17%	\$ 1,373,140	15.8%	\$ 697,340	\$ 19,924
\$2mil - \$3mil	8	4%	\$ 2,287,475	6.0%	\$ 265,528	\$ 33,191
\$3mil - \$10mil	12	6%	\$ 4,407,367	17.4%	\$ 767,412	\$ 63,951
\$10mil +	6	3%	\$ 19,120,333	37.7%	\$ 1,664,616	\$ 277,436
	206		\$ 1,475,788		\$ 4,411,255	\$ 21,414



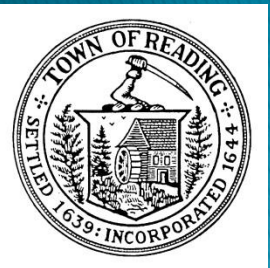
Walker's Brook contributes about \$2 million of the above totals

Town of Reading

Impacts of a Yes or No Override Vote

Dr. John Doherty, Superintendent of Schools

[FY18 School Budget Discussion.pptx](#)



Town of Reading

Impacts of a Yes Override Vote

Town government – Additions of \$540,000

- \$200,000 Retaining and attracting staff
- \$ 85,000 School Resource (Police) Officer
- \$ 75,000 Firefighter/paramedic
- \$ 70,000 Technology equip. (yr 1) then staffing
- \$ 60,000 Library staffing
- \$ 25,000 Town Accountant staffing (PT)
- \$ 25,000 Volunteer Board support (will change each year)



Town of Reading

Impacts of a **No** Override Vote

	FY17	possible reduction	Theoretical 75/25 wage/exp
Admin Svc	\$2.76m	\$100k	1.0 FTE
Public Svc	1.62m	60k	0.8 FTE
Finance	0.78m	30k	0.3 FTE
Pub Safety	9.95m	400k	4.0 FTE
Pub Works	5.61m	225k	2.5 FTE
Pub Library	1.49m	60k	1.0 FTE
Facilities	3.14m	125k	1.5 FTE
	\$25.4mil	\$1.0mil	11 FTEs



The Town Manager has issued a hiring freeze that at present leaves open 3 Public Safety and 1 DPW positions that are now or through retirement expected to be vacant